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ACCELERATION OF FOREIGN-TRADE RELATIONS
CHANCE FOR THE CZECHOSLOVAK ECONOMY?

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I. Introduction

In the course of last two years practically all the European countries connected with a common political perspective during the period of four decades, as well as with the centrally planned character of their economies, have undergone principal changes. While analysts, specialists in national economy and politicians are racking their brains where, i.e. in what direction the economies and politics in this part of the world are developing, and what it will bring for the world economy, just a little space is given to searching for the answer to the question concerning the basic causes for this historical change. Socialist economy found itself in crises in spite of the efforts for its reform which have been going on since the late fifties. None of those reforms, however, managed to produce long-term satisfactory results.

In the CSFR and other neighbouring countries, failure of the economic reforms to date is being extensively discussed.

There are various views of the causes, including the question whether the political structures in power were involved at all in reforming or if the present-day nature of socialist economy may be reformed.

The findings so far confirm the idea that this is the case of a more extensive crisis rather than an economic one, and its solution is closely connected with dealing with a lot of political problems, which were neglected and put aside, further with removing the residues of totalitarian regimes, with the development of democracy and a pluralistic society.

It is from this point of view that the contemporary changes in Eastern Europe open up space for radical economic reforms and a faster transition to a market economy. Its success is going to be affected in each country by the initial situation of domestic economy.

My intention is to indicate chief factors, which may act as retarding or acceleration factors on the development of the Czecho-Slovak national economy. This is, by no means a simple task (in the period when "the residues of the political system breaking to pieces cannot be seen because of the dust covering it").

Moreover, it is understandable that a wide range of economic problems, as well as a part of the terminology used in the countries developing on completely different socio-economic bases, are found by economists and

theoreticians as something new and strange. In spite of this it is assumed that the present factography and my views may stimulate the interest in real historical processes going on in Central Europe and which may effect the position of this continent within the world economy in near future. The paper deals with the analysis of the selected internal and external conditions for the CSFR's possible return among advanced economies and a draft of the economic reform scenario proposed.

II. Internal conditions

We are heading for the road that has never been walked through by anyone and some have already managed to get stuck in it. However if we want to return to a technologically advanced world not as the poor relations, bowing in humiliation and squeezing a cap under their arms, but as equal and prospering partners, we have to create crucial pre-conditions if our intentions are to come true. (Basic features of the CSFR strategy in the period of transition from the centrally planned economy to the market one, Prague 1990).

A sudden collapse of the East European countries' political systems has resulted in the rise of a new sense in developing economic cooperation between East and West. Well-known periodicals and prognoses of leading experts on "East problems" abound with various views of the development of cooperation of the two economic blocs facing each other and individual countries of the hitherto completely different political systems.

Some of these forecasts are imbued with considerable optimism, other are rather careful, and they point to a still vague tendency of merely gradual increase in mutual trust in the economic sphere. Just a few out of the thousands of

entrepreneurs who visited our country on business were, however, able to understand that in the course of four decades, the CSFR pursued the course, which, aided by a sophisticated political system, suppressed something in man that had been accumulated in the course of almost a hundred - year development: from the times of industrial revolution down to the scientific and technological revolution, with its favourable, as well as shady sides. A gradual wind-up of material incentives, continuous efforts for the implementation of political slogans and universal equality, imposition of the one-party monopoly in power, step by step, managed to eradicate the priorities from our national economy that are brought by economic competition, the law of the market, the continuous fight for competitiveness and an efficient activity of each firm and its employees.

Gradually, the world becomes persuaded that in spite of a general economic backwardness, Czecho-Slovakia has a supply of mainly intellectual abilities at their disposal, but when confronted with other East-block countries, with a number of other comparative advantages. They are as follows:

1. a long-term industrial tradition
2. highly-educated labour force, for whom the favourable entrepreneurial boom expected means a powerful motivation
3. further, an advantageous geographical location connected with a huge historic and cultural wealth.

Key figures in 1989

Table No 1

	Bulg. ^a	Ruman. ^a	Hung.	Czech. ^a	Pol.	USSR ^a
GNP (\$ bn.)	41.5	70.9	29.0	50.7	59.8	1258.0
GNP growth (%)	-0.4	-1.5	0.5	-	-2.4	-2.5
Population (mn.)	8.9	23.2	10.6	15.6	37.9	293.0
GNP capita (\$)	4663	3056	2762	3250	1578	4293
Inflation (%)	-	-	17.0	-	640.0	-
Exports (\$ bn.)	2.5	6.8	6.2	5.8	8.5	26.0
Imports (\$ bn.)	3.5	5.0	5.6	5.6	7.7	32.5
Trade balance (\$bn)	-1.0	1.8	0.6	0.2	0.8	-6.5
Current acc. (\$ bn)	-1.5	1.5	-0.5	-0.5	-0.5	-4.5
Debt (\$ bn.)	10.8	0.3	20.0	7.9	41.4	52.4
Debt in % GNP	26.0	0.0	69.0	15.6	69.2	4.2
Debt/export	4.3	0.0	3.2	1.4	4.9	2.0

a/ It should be noted that the difference in GNPs with the West will increase if local currencies are devalued further vis-à-vis the U.S. dollar. At the same time, the debt ratios will be under increased pressure.

Source: Economist Intelligence Unit. WIIW.

The CSFR's industrial capacity made it one of the leading countries in the world. In the course of the last twenty years, however, the structural profile on the level of the sectors in the economy diverged from a typical structural profile, and its development in the process of economic development, connected with the national character of the market economy. An excessive weight of

importance of manufacturing industry is documented in Table No 2, indicating the share of the selected total resources flowing into the industrial (manufacturing) sector, in comparison with advanced capitalist countries.

Share of Industry in Production Resources and Creation of Gross Domestic Product (GDP) in the 80's (in percentage)^{1/}

Table No 2

	CSFR	10 major industrial countries
employment	38	25
energy	59	37
investments	35	24
import	87	40
GDP creation	37	28

Source: Round-up Prognosis of Development of the Czechoslovak Economy up to the Year 2010, Prague 1989.

1/ The share of engineering in GDP formation is estimated at 16 per cent (major industrialized countries: 7 - 8 per cent), services 8 - 9 per cent (in comparison with 45 - 62 per cent), metallurgy, 3, 6 per cent (1 %), agriculture 18 per cent (3 - 5 %).

At present the Czechoslovak national economy has at its disposal a most extensive fixed asset base. Its value is estimated at 4 - 5 trillion Cs. crowns, and in terms of its share per employee it may be hard to find its rival in the world. On the other hand, the age of most machines and equipment averages 11 years, but may sometimes reach even

60 - 70 years, and the level of wear - and - tear is considerable.

The size and structure of Czechoslovakia's engineering industry was accelerated after World War Two due to the fact that Czechoslovakia had become the "forging and engineering plant" helping to renovate East European economies, including that of the Soviet Union. Towards the end of the 1970s and at the beginning of the 1980s, this country's engineering industry was invigorated by another massive impulse in the form of large-scale Soviet purchases in return for "petroroubles": Gradually an extensive engineering complex has evolved, comprised today of 300 companies that group 800 plants, employ 1 050 000, and use an enormous production potential. However, their overall technical level is quite low. In 1987, semi-automated and fully automated program-controlled machines and equipment accounted for 23.6 per cent and 26.3 per cent of the total stock of machinery in industry and engineering respectively. The technico-economic parameters of nearly 70 per cent of the machines used in the engineering industry today reflect the technical standard of the first half of the 1960s. This great moral and physical obsolescence of engineering industry's equipment - aged 18 years on the average - can be clearly seen in the quality and cost-intensity of production, while the decisive engineering technologies are the oldest of all - the age of machine tools in 20 years, forming machines 20.6 years and thermal processing machinery 21.8 years.

The scope of production funds in Czechoslovakia does not permit an increase in the over-all level of shift - work, ranging approximately between 1,2 - 1,3 that is, one of the lowest in the world. A sad technical condition of machinery reflects an overall structural deformation, resulting from the previous practice of enforcing large-size of firms by force, combines and bureaucracy, central regulation of production in firm, price planning and profit redistribution. This results in deforming the economic mechanism through a low motivation of economic subjects for the efficiency of motivation.

This led to a low rationality of the overall creation and consumption of national product, to a disproportionately high production consumption^{2/}, production investments and finally, to suppressing a rational pattern of personal consumption.

When it comes to personal consumption, the latter is most deformed by excessive expenses for foodstuffs (even under conditions of high price subsidies from the state budget up to 1990): further, by an insufficient supply and quality of services and consumer goods. The volume of subsidies in Czechoslovakia in 1989 was over 52 billion crown. The contemporary share of expenditures for foodstuff

^{2/} For 1000 USD of the created GNP about 21 GJ of primary energy is being consumed in CSFR (that is 8 GJ in major industrialized countries), 104 kg of raw steel is being produced and 77 kg is being consumed (26 and 29 kg), 7 kg of cement is being produced (4 kg), 97 brutto tkm of cargo railway transportation is being consumed (175 tkm), etc.

exceeds 42 per cent of total incomes. For culture and tourism 8 - 10 per cent is spent, for manufactured consumer goods 10 - 12 per cent. According to available data, these values, in the former case exceed by 100 per cent; in the second and third cases, they are by 70 - 80 per cent smaller in comparison with the division of the consumption basket in other industrialized countries.

Another extensive, though inefficiently exploited resource, which is being wasted in the process of GDP creation, is the labour force. Nowadays there are 8 million inhabitants employed (51,5 per cent out of the total number of inhabitants) with qualifications among the highest in Europe. The average length of the work week being 42,5 hours, the number of hours worked per inhabitant amounts approximately to 940 - 950, annually.

On the other hand, the Czechoslovak level of wages and salaries is considerably lower, ranging on the border of 1,5 - 3 USD per hour, as compared with 8 - 10 USD in Western Europe. In contrast to advanced economies, the labour force in the QSFR is allocated in the first place to sectors of physical production, in particular, the manufacturing industry. Services are severely under - represented.

Employment Structure in the CSFR and Selected Industrialized
Countries by Major Industry in the year 1985 (%)

Table No 3

	CSFR	DC's	CSFR - DC's
Agriculture and forestry	12,5	6,0	+ 6,5
Engineering and metallurgy of nonferrous metals	13,0	7,8	+ 5,2
Light industry	9,9	6,4	+ 3,5
Civil engineering	6,7	7,0	+ 1,7
Services	8,5	42,0-62,5	-

Source: Calculations of the Prognostic Institute of the
Czechoslovak Academy of Sciences, Prague.

Considerable differences in most foreign as well as domestic professional sources are due to social elements of employment causing lower work morale rather than an essentially lower technical level.

Another factor which unfavourably affected the value of the labour force in the long run was a deformed demand for qualified labour. Qualification was understood in terms of its nominal characteristics rather than its real results. Appointing the so-called "nomenclature cadres" with the necessary political profile to top posts deterred employees from the effort to achieve higher efficiency or to

do quality work for their qualifications, and this, in turn, deformed not only demand for a qualified labour force, but also its choices and the level of training for this qualification. These trends were multiplied by two massive waves of political repressions, after the years 1948 and 1968, and a forthcoming emigration wave of top technical and other cadres.

Even in spite of these aspects, the efficiency parameters of Czecho-Slovak economy, living from its tradition and manual skills, were quite high until the middle 70's and in comparison with other centrally planned economies' production and export results, were good until the beginning of the 80's.

The mentioned drawbacks in the running of the CSFR national economy resulted in an increasing manufacture of low-quality goods. In the period of carelessness, the mechanism of planned balances was unable to meet the needs of the domestic market as well as the CMEA market, and the phenomenon of waste was increasingly manifested.

In many firms the rate of rejects was calculated in percentage and production was classified approximately into three qualitative categories: export to capitalist countries, to socialist countries and standard products of the lowest quality, destined for the domestic market.

"The tender revolution" which made an essential breakthrough in the CSFR's place and relation in the world

economy, created sufficiently strong incentives for the governments of leading countries, foreign capital, engineering and consulting companies and individual entrepreneurs to become interested in our economy. They are finding considerable chances for their successful operation in the CSFR. The firms coming with the expectation to achieve fast profits are coming across several problems with which they are familiar from developing countries.

Besides demand for new machines and technologies an extensive domestic production base may be activated only at the expense of considerable investments in the construction of modern infrastructures, connecting it with information and telecommunication systems, creating efficient finance and banking systems, as well as education and training of qualified personnel for marketing, public relations, activities in the area of foreign commercial operations, consulting, etc.

Some foreign businessmen expect to find a position in a huge Soviet market unsaturated with goods, through their involvement in the Czecho-Slovak economy; and that via extensive claims of the Czecho-Slovak economy on raw-material imports from the USSR, they will be able to find a channel of transferring their yields into the CSFR, from where the yields could be transformed back to their owners at a smaller risk. This way seems to be most promising in the period of long-term favourable boom and "overheating" mainly in West - European and Japanese economies (Germany is an exception, as these problems are solved through

confederation with the erstwhile Socialist part of the country which was separated by force). Moreover, several of our firms established cooperation and other production ties and contacts in the country of their biggest business partner in the course of four decades and even in the future.

The last important area which is in urgent need of cooperation is environmental creation and protection. In terms of quantifiable factors of the scope of environmental pollution, our country ranks at the top among European countries with the figures often several times exceeding accepted norms^{3/}. This results in the low life-expectancy of our inhabitants, among the lowest in Central Europe, which is however due to our share of the overall level of air, water and soil pollution.

Most foreign partners stipulate their financial or material help to the CSFR with their own preferential allocation to the area of the environment. This is due not only to its considerable depreciation all over Central Europe but also in Scandinavian countries, as well as due to the fact that ecological aspects are reflected in the measures taken by central national - economic regulation too slowly and inconsistently, in spite of a number of negotiations on the subject.

3/ The CSFR is in second place in terms of the volume of sulphur dioxide emissions per km² and in third place among the biggest polluters in Europe.

Causes of the unfavourable environmental living conditions may be sought not only in economic developments characteristic of a rising tension between available material or financial resources, but also in a distorted consciousness of a decisive part of workers in management promoting the long-term preferential policy of heavy-tonnage productions and being only formally liable for their situation.

The stake taken by our previous government in the sphere of supplying the economy with energy, i.e. building nuclear - power stations on the basis of the Soviet VVER - 440 and VVER - 1000 types, called forth a justified protest on the part of Austria, Germany and other countries. The consequences of the Chernobyl breakdown necessitated the entire programme to be re-assessed. In cooperation with the manufacturers from leading industrialized countries, new elements have been found, securing the safety of their operation; or these resources have been replaced by some other, safer ones.

Since the issue of environmental quality and the unfavourable effects of pollution is not limited by national and political borders, this area is going to be one of the first ones for co-operation - in spite of the different Eastern and Western views of it as yet, indicating the existence of two hitherto different political systems. This area might become one of the groundstones of the new unified (common) European house.

III. External conditions

The speed and scope of the political integration of Czechoslovakia into an overall European framework and into the world economy is going to be markedly dependent on resolving the economic aspect of this process. On the one hand, conditions for the fastest possible change of material and proprietary structures and the technical level of the production base will have to be created simultaneously; on the other hand, conditions for the application of new technologies and the findings of world-wide research, and, finally, for an overall increase in export capacity must be created. The hitherto exceedingly one-sided orientation of the Czechoslovak foreign-trade structure is to be replaced with the orientation to the widest possible cooperation with all countries in the world, in particular, however, with our European neighbours.

The structure and efficiency of the CSFR's external economic relations has been unfavourably affected by the period of almost four decades of extensive economic growth, in the course of which our economy became an exporter of low technology products and materials produced on a large scale, and an importer of predominantly heavy industry

products. Since 1960 the share of raw materials and semi-finished goods in Czechoslovak imports stepped up from 43 % to 62 %. Consumer goods practically disappeared from our imports. The CSFR was gradually being driven out of demanding markets in the non-socialist area and oriented to less exacting markets in the centrally planned economies. These unfavourable tendencies resulted among other things in the decline of purchasing power of Czechoslovak exports (Terms of Trade declined to 66,6 % in the period 1970-1986).

In the sphere of final production, in 1985 the CSFR exchanged 3,86 kg of her exports for 1 kg of imports from Germany. Belgium exchanged 0,75 exports for 1 kg of imports, Switzerland - 0,76 for 1 kg. At the same time, however, the volume of Swiss merchandise to Germany was 16,7 times higher in that year. As a result of a permanently lower growth rate of Czechoslovak exports, the share of the CSFR in world exports declined from 1,61 % in the fifties to 0,9 % in the eighties. External economic relations became thus a retarding factor and a channel of immense economic losses and downgrading of the national product rather than a factor of growth. Some calculations confirm that merely as a result of failing to achieve the prices planned and often exporting for prices that did not even cover factory costs of the exports, from \$ 300 to 500 million USD was lost annually. The capability of the national economy for transformation was also decreasing in the course of the eighties. For instance, in the year 1987, 1 Kčs of imported

fuels, raw materials and materials corresponded to only 1,43 Kčs of value added.

The impacts of this unfavourable development on the entire economy are most serious. They appear practically in all areas of our foreign-trade relations, as well as in our domestic economy. It is not only the question of the geographical and technological pattern of trade, efficiency of import-export relations, the increasing tension in trade and payment balances, but it is also the practical inability to meet the demands for imports for personal consumption, as well as production consumption. This in turn results in breakdowns in supplies, and exerts an unfavourable impact on an overall socio-political climate in the country.

Czechoslovakia: Exports and Imports by main directions
1970-1989 (Value, billion US dollars)

Table No 4

	1970	1975	1980	1985	1987	1988	1989
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Export:							
World	3,79	8,36	14,93	17,47	22,99		14,40
EEC-East	2,43	5,47	8,46	11,28	16,87		7,70
EEC-West	0,92	1,97	3,82	3,39	4,16		5,02
Other	0,43	0,92	1,64	1,80	1,96		1,68
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Import:							
World:	3,70	9,09	15,18	17,55	23,24		14,24
EEC-East	2,33	5,85	9,83	13,09	17,20		7,75
EEC-West	1,01	2,52	4,21	3,22	4,59		4,87
Other	0,35	0,71	1,14	1,24	1,45		1,62
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Source: Economic Survey of Europe in 1989-1990, UN N.Y. 1990
national foreign trade statistics.
EEC-East = east European countries of CMEA and the
Soviet Union
EEC-West = EEC market economies and Japan
Other - all remaining countries

Note: Higher shares of the ECE- East countries as indicated
by official Czecho-Slovak data, e.g. 1987 - 78,7 %,
are, however difficult to compare in view of different
currencies and their fictivious exchange rates.

An unfavourable, insufficiently diversified development
of the geographical structure of foreign trade is the outcome
of a gradually increased political orientation of foreign-

trade ties with socialist countries, in particular with the Soviet Union. The absence of a domestic raw-materials base caused the Czecho-Slovak economy to re-orientate to the market of the main supplier of raw-material inputs, which, as a result of a chronically unsaturated internal market, forced Czecho-Slovak producers to produce standard consumer goods in maximum volumes.

This trend, unfavourably affected since 1974 by increasing prices of raw materials and fuels on the world markets, was reflected with some delay through the flexible five-year average - in the necessity of a continuously rising volume of exports in return for a declining physical volume of imports, particularly of oil^{4/}.

This deterioration in real exchange relations aggravated by a low level of value added to material inputs, resulted in an ever increasing tension between the stagnating import volume of raw-materials inputs and a growing volume of physical exports. The structure of foreign-trade merchandise deviated more and more from the long-term intentions planned, as well as from the structure, of successfully operating national economies with a similar initial material and technical basis.

4/ In the CMEA member countries' mutual trade the so-called contractual prices based on the arithmetical average of world prices in the course of the preceding five years. For example, in 1986, the average prices of commodities in the period 1981-1985 were used. This approach was to help to remove the deviations resulting from boom or speculation in current world prices. Since 1989 the current world prices have been used.

Commodity structure of Czechoslovak
Foreign Trade (in percent)

Table No 5

	E X P O R T					
	1965	1970	1975	1980	1985	1988
Total of which:	100	100	100	100	100	100
I. Machinery and equipment	48,5	50,2	48,0	50,2	57,4	58,5
II. Fuels, raw mate- rial and materials	30,4	29,4	30,3	29,7	24,6	23,7
III. Foodstuffs inc. raw materials	4,6	3,9	4,3	4,3	3,7	2,6
IV. Non-foodstuffs goods for consumption	16,5	16,5	17,4	15,8	15,4	15,2
=====						
	I M P O R T					
	1965	1970	1975	1980	1985	1988
Total of which	100	100	100	100	100	100
I. Machinery and equipment	29,9	33,3	36,9	36,6	34,4	41,6
II. Fuels, raw mate- rials and material	48,9	43,1	46,6	48,7	53,6	45,9
III. Foodstuffs inc. raw material	16,0	15,1	9,3	8,8	6,3	5,8
IV. Non-foodstuffs goods for consumption	5,2	8,5	7,2	5,9	5,7	6,7

Source: Facts on Czechoslovak Foreign Trade, Chamber of
Commerce and Industry, Prague 1989.

Long-term tension was caused by imposing a policy of centralized foreign-trade regulation and its directive orientation to exporting firms, which, as a result of their monopolistic position in the domestic market, continuously unsaturated market and a small export efficiency, found it disadvantageous to export their goods. Another unfavourable influence which came to be felt was that of the erroneous Czecho-Slovak economic strategy based on the assumption that scientific and technological development could be achieved primarily from internal resources. This strategy of "relying on one's own resources" was really one of re-inventing the wheel and increased, rather than decreased the distance of our economy from the world technological level. In the sphere of foreign trade, the imposition of this tendency was increasingly reflected in the effort to maximize the growth of raw-materials imports with compensation by all kinds of home-made products that the foreign partner might be interested in. That was not a difficult task to cope with until 1987, especially in the case of the Soviet Union, which chronically failed to meet the needs of the domestic market even with essential goods. After this period, however, the impact of decreasing world prices of materials came to be felt.

On the other hand, a number of economic and political "Western interventions" in the CSFR economy, as well as other centrally planned economies brought about remarkable economic damage. The COCOM activities, which wiped out the

possibilities of mutual exchange of goods between the East and the West may be mentioned as an example. Despite the protests of mainly West-European firms, which lost their contracts of tens of milliard USD, political interests were given priority till the end of 1989. American businessmen themselves calculated the loss resulting from COCOM disapproval of deals in 1987 at 10 mld USD. It is hard to calculate the losses of a technological gap and the overall lag in science and technology in the CSFR and other countries. It may be assumed that the removal of the iron curtain, restoration of the most-favoured-nation clause and the IMF membership, as well as the global adjustment of political relations will forever eliminate the residues of the cold war from the sphere of mutual contacts.

The long-term effort for maintaining the widest possible range in the assortment of manufactured goods resulted (in 1987) in the situation that as much as 75 % of the world industrial production assortment was produced in the CSFR, while domestic firms found it increasingly difficult to cope with the effectiveness barrier.

A vague approach to pricing and exchange-rate criteria and an almost complete absence of the international movement of production factors ended up in misorientation in the area of outputs and costs in international economic cooperation, mainly in recent years. In spite of the official statistical data indicating approximately a one-third share of so called "specialized production" in the CMEA member countries' foreign trade, in fact, this share was about 10 %. The data

indicated by the advanced EEC countries are about 50 - 55 %. Most trade agreements were calculated on the government level, and the firms only received directly determined export quotas. Inputs were allocated by input-output planning ("economic balance") so that firms had an incentive to maximize their production cost by means of bureaucratic procedures, which, in turn, were reflected in factory costs and export prices.

This state of affairs caused Czecho-Slovak firms to lose interest in the price levels on the world market, and consequently also in the efficiency of their labour, in increasing the qualification of the labour force, in introducing brainwork elements into labour and in updating production output and methods.

The tendency to magnifying the physical volume flowing through the national economy came to be increasingly reflected in the foreign trade results. Through processing this physical volume quite a small share of value is added to change the material for final use. Imports amount to roughly 55 million tons of goods at the average value of almost 400 USD per "ton" into the Czecho-Slovak production process. On the other hand, via export, 26 mil. tons at an average value of almost 800 USD per a ton will be lost. Export and import volumes of 81 mil. tons generate turnover valued at 41 mld USD.

All of the mentioned characteristics of our standing in the international division of labour create a powerful

external disequilibrium resulting in deficit on the trade and capital accounts. If it had not been for the central influence on the development of trade, the disequilibrium of payments and the scope of indebtedness would have been considerably higher.

Cumulative balance of the CSFR trade balance
in five-year periods

Table No 6

Mil. USD	CSFR-CMEA	CSFR-DVC's	CSFR-DC's
1961-65	+ 488	- 161	+ 213
1966-70	- 151	- 296	+ 467
1971-75	- 130	- 1480	+ 641
1976-80	- 1869	- 3558	+ 1433
1981-85	- 2652	- 233	+ 3191
1986-88	- 347	- 1232	+ 1264

In 1989, Trade with non-socialist countries increased considerably while its business with the so-called socialist countries declined. The effectiveness of trade in terms of barter relations improved, and the country began to cooperate with foreign companies on a broader basis. A number of enterprises with foreign capital participation were established. Czechoslovakia's foreign trade turnover increased by 2,1 per cent; its trade with socialist countries dropped by 2,2 per cent and that with

non-socialist states increased by 9,8 per cent. In 1989, as in previous years, Czechoslovakia's balance of trade showed a surplus, amounting to 2,800 million crowns. At the same time, its trade with non-market economies resulted in a deficit totalling 1,500 million crowns. In trade with market-economy countries Czechoslovakia had a surplus amounting to 4,300 million crowns (of this amount, 1,100 million crowns resulted from trade with industrialized countries, with which its last surpluses were in 1984 and 1985^{5/}).

While assessing revolutionary changes in Central and Eastern Europe, a number of foreign commentators emphasize that a practical disruption of the political system in this part of the world is a result of the social influence of Western countries and of a subjective factor. However, neither of these two factors could have produced any effect if it had not been for serious economic and foreign-trade problems, which the previous regime was unable to resolve successfully.

Fast-growing problems in separate economies in Eastern Europe were increasingly reflected in their extensive foreign-trade ties. The Soviet Union curbed the export of raw materials and fuels, which, in turn, brought about a deterioration in the supplies and production in small European countries. The goods manufactured could not be marketed - even on alternative markets, which, again,

5/ Czechoslovakia's engineering industry at a crossroad
Czechoslovak Foreign Trade, Prog. 1/1991.

produced other problems. In 1990 the fuels and energy price inputs of the CSFR increased by over 50% and a further increase is expected at the beginning of the year 1991.

As it is unlikely that the Soviet Union will be able to deliver the quota of raw materials agreed, the CSFR turns to her partners, debtor and other countries, which export oil (Iraq, Mexico, Venezuela, et al.).

A wide range of problems, some of which have been mentioned, call for the necessity of adopting a complex of measures in foreign trade. When flexibly incorporated in the global reform process, these measures may help to transform the present-day cumbersome and inefficient economic system into an efficiently operating market mechanism.

In external economic relations, substantial changes are needed both in material and administrative arrangements. In the first place, it will be necessary to overcome the existing detachment from the world markets and expose the producers to external competition and the consumers to world supply. The first step towards this goal should be the introduction of internal convertibility of the Czecho-Slovak currency.^{6/} It is assumed that a relatively low total indebtedness of the CSFR estimated at 7,8 mld USD and the

6/ Results of the IMF-Mission Report in the CSFR from May 26, 1990 to May 25, 1990, assume a considerable probability of a successful economic reform by the Government of National Consensus. The introduction of internal convertibility should be preceded by the CSFR's return to the IMF and the World Bank.

internal hard currency and gold reserves (2,1 mld USD), could, along with the expected loans from world banks in value 1,8 mld USD, help to overcome the first "shock" and thus avoid the "Polish" course of development, i.e. a vicious circle of debts and inflation.^{7/}

The strategy of a radical economic reform of the Czecho-Slovak economy, as submitted by the government in April 1990, includes the assumption that the former centrally planned economies will constitute, to a great extent, the region with which a significant part of foreign trade will be carried on even in the future.

However, the character of the CMEA grouping has to change. If it does survive its numerous internal discords it could change into some other type of international community, e.g. a kind of Eastern OECD. Further development of the Czecho-Slovak economy will considerably depend on how efficiently the CSFR's major partner, i.e. the Soviet Union, manages to cope with the economic reform. The Soviet Union's immense domestic market means an important perspective for Czecho-Slovak firms even in the future.

7/ Official data indicate the decrease in the rate of inflation \emptyset in Poland below 5 %, but the total indebtedness rose up over 40 mld USD, and without being converted it may be liquid only theoretically.

As a result of the transition to joint clearing in convertible currencies between the two partners after Jan.1, 1991, the existing trade ties and significant relations will be polarized and may even be reduced.

What remains as a disputable issue is the new trade or commercial policy of the unified Germany, which will have become a member of the European space and may "play the first fiddle" in it, as well as in the EEC. It cannot, however, be predicted which of the foreign economic ties with the CSFR will be maintained.

In accordance with the deliberations of the CSFR government, three important systems measures are to be adopted by government policy. It is from them that the following transition to the market mechanism should evolve:

- liberalization of foreign-trade economic relations enabling a lot of firms to participate in international trade,
- implementation of the policy of de-regulation, i.e. eliminating state intervention in value relations and removing an artificial increase or decrease in prices of resources or finished products, taking measures towards introducing internal convertibility of the Cs Crown in line with existing comparative advantages,
- small and big - scale privatization of state property.

The main aim of the state policy in foreign trade will be as follows:

- securing a sufficient market for Czecho-Slovak exports and

paving the way for entry to markets in the EEC, EFTA, USA and newly-industrialized countries, and preserving the markets in the CMEA member countries and those in China;

- formulating and taking measures in terms of commercial policy to secure sufficient and stable suppliers of energy and raw materials, diversified so that supplies may not be easily disrupted by economic or political changes;
 - promoting the increase in export efficiency of the national economy through material and psychological stimulation of producers and exporters, and by creating a system of engineering, consulting and statistical services;
 - creating systems of quality control for exports and applying them efficiently.
- The methods are to be analogous to with those applied in Japan and Korea,
- encouraging the flow of foreign capital into our economy and creating conditions for our investment policy in other countries.

It is obvious that the overall strategy of the economic reform must constitute a sophisticated set of measures, providing options, since there are some limits to forecasting the nature of the new economic behaviour of the economy and the way economic subjects will react to the external or internal environment.

The representatives of the mentioned IMF - Mission pointed on that even the most radical economic reforms had failed when the public and politicians had been

insufficiently informed of the outcomes of those reforms, and not because of an inadequate preparation of the reforms.

The following data are mentioned for the sake of comparison: Switzerland's imports reached 39,5 mil. tons of merchandise (value: over 1000 USD/t) and her exports amounted to 6,1 mil tons (value: 5500 USD/t). The flow of exports and imports with a volume of about 46 mil. tons generates turnover with a value of about 75 mld USD. The 40 % lower material inputs, in the case of Switzerland, generate 80 % higher appreciation in comparison with Czecho-Slovakia.

The economic restructuring being introduced by the Czechoslovak reform is the basic prerequisite of surmounting the structural deformities which accumulated over the years, resulting in chronic disproportions and ineffective relationships, which prevented a rational and dynamic development of the country's national economy. Therefore a prepared transformation in Czechoslovakia cannot be a mere analogy of the structural changes carried out by the economically advanced countries in the 1970s and partly the 1980s, but it must be a profound and comprehensive operation that will affect the industry, agriculture, construction, transport, telecommunications and services - directly influencing the domestic consumer market, as well as the health service and education.

According to the qualified estimates imports of high-tech from advanced capitalist countries would represent in the first stage some USD 16,000 million worth of

investments into this country's manufacturing industry, of which 7,000 million would go to the engineering industry. Considering Czechoslovakia's limited possibilities for exports, the question arises of how to generate the funds needed to cover such imports. A certain solution is cooperation with companies in advanced capitalist states. Its extent might grow from today's one to three per cent gradually up to 25 to 30 per cent by the year 2000, and 50 to 60 per cent in the following decade.

The plans concerning the exports to western countries are to a certain degree, on the above need to import high-tech from them. This is why non-socialist countries share of Czechoslovakia's engineering exports should go up from the 9,5 per cent today about 30 per cent in the first decade of the next century.

IV. Scenario of Socio-Economic Reform

A number of findings from preceding analyses of our social development results in the conclusion that the further socio-economic development to a morally healthy and all-round prosperous society may only lead through:

a/ building a political system of a free democratic society,

b/ implementing an economic programme which enables the transition of our society to a modern market economy.

The initial basis for restructuring our new political system has been created by adopting new acts of law as well as by the rise of a pluralistic political system. The path to the building of a new social order cannot, of course, take a smooth course, but in spite of this fact, it helps to define the chief trends and objectives of social reform as a basis for formulating our economic programme.

The introduction of this programme, requires in the first place a decision on basic measures to be taken, so that the transition to the market system does not end up with the worst variant, or a kind of hybrid of centrally planned and market economies, bringing to life only the worse aspects of both of these economies, i.e. economic inefficiency and social breakdowns. The programme of the economic transformation proposed consists of a set of

measures, the following being the most important ones: price decontrol, export - import liberalization and internal convertibility, promoting the development of the private sector (small scale and middle scale privatization), macro-economic anti-inflation policy, a policy of social guarantees and of environmental protection and restoration.

In the Scenario of economic reform submitted by the CSFR Government on Sept. 4, 1990 for public discussion, the reform measures are split into two parts:

- first, creation of a macro-economic framework,
- secondly, micro-economic reform measures.

The basic role of macro-economic stabilization policy is the formation of the kind of economic environment in which the necessary change in the microsphere, accompanied with the changes in price structures, will not result in increasing global disequilibrium, in rapid inflation, or a disproportionate growth of indebtedness. All the other macro-economic objectives i.e. economic growth, employment and equilibrium of the balance of payments, have to be subordinated to this.

The financial policy is assumed to strive for a decreasing share of expenses of the state-budget in national income, namely through decreasing subsidies to the corporate sphere of state firms and enterprises while supporting private business and decreasing national consumption.

The purpose of taxation reform, scheduled in several stages, is the formation of a new taxation system, interconnecting the incomes and expenditures of the state budget with the development of Gross Domestic Product, decreasing tax rates to the level current in countries with a market economy, creating the corresponding conditions for competition and promoting socially desirable entrepreneurial activities.

One of the basic aims of macro-economic policy is liberalization of foreign trade. Foreign competition should become an effective regulator of liberalized prices and an external motor force to boost the effectiveness of domestic production. The main liberalization steps are:

1. Widening the range of business activities and liberalizing the export and import programs of foreign trade organizations;
2. Creating legislative, and follow-up organizational prerequisites for enabling Czechoslovak producers and final users of imported products to become directly involved in foreign trade activities;
3. Creating legislative, and follow-up organizational prerequisites for increasing the number and type of subjects pursuing foreign trade activities;
4. Creating conditions for the access of foreign companies to the Czechoslovak market;

5. Changing gradually the structure of the ownership forms of organizations whose main object of business is the carrying out of foreign trade activities;
6. Suppressing, or eliminating the state's interference in foreign trade activities by imposing binding tasks upon organizations, or by centrally re-distributing foreign exchange, etc.
7. Introducing terms of payment usual abroad in domestic relations, including the coverage of exchange rate differences, entrepreneurial risks, settlement of direct foreign commercial expenses.

The scenario of economic reform assumes that one of the decisive components which would directly determine the result of the whole process will be the change in property relations in the Czecho-Slovak economy. So far, there has been a complete predominance of public or state ownership, while the share of each citizen in its creation and use was not identifiable. The basis of a functioning market economy is, however, the private ownership of the means of production. Consequently, in order to achieve an essential changeover, the government programme an acceleration of the processes of de-nationalization and privatization is assumed. The starting-point of these processes will be the adoption of the so-called transformation law.

The share of the private sector in the Czecho-Slovak economy will increase in two crucial ways:

- through the entry and growth of new private entrepreneurs and firms in the economy,
- through privatization, i.e. the sale of the property allocated to present-day state enterprises to private persons^{8/}.

It is expected that one of the most important sources intensive increase in product lines, services and in economic growth will be expanding small and medium-sized firms. The opening up of markets and rapid domestic adaptation to the impulses of high technology, as well as new technologies, can not be impemented under our conditions without finding a suitable place in the economy.

One of the beams of economic reform should be price decontrol. The hither to prevailing deformed pricing systems, which were administratively established, are not capable of supplying economic entities with information on demand and supply in the market or concerning natural resources, etc. Price decontrol started since Jan. 1. 1991 aims, therefore, at removing the obstacles to price-setting

8/ The subject of small scale and middle scale privatization are so-called operations units i.e. those parts of state owned organizations that can be used for independent business. Thanks to their smoller size extent of property and number of employees, these units have good prerequisites for being bought by private entrepreneurs in Czecho-Slovakia. This is important in the situation in which private businesses only emerging in Czecho-Slovakia, and private entrepreneurs have only very limited possibilities for capital investment. What should not be on sale are those operations units, the separations of which from state owned organization in question would impair the latters activities in sofor the organization would not be able to honor its commitenent vis-a-vis partners.

on the basis of efficient allocation by demand. It is going to develop in dependence on the extent of the liberalization of the imports achieved, i.e. of the rate of demonopolisation. It is only afterwards that it will be possible to approach a complete price decontrol and relax the monetary regulation of incomes without major constraints. The expected rate of inflation should be dampened by a restrictive financial and fiscal policy and a tough wage policy. Efficient supplementary instruments may be found also in pricing and exchange-rate policies.

Opening the economy to international competition however, a change in management of exchange-rate relations and a flexible approach of domestic firms to hard currency on the basis of equal rights. This can only be achieved by internal convertibility of the Czecho-Slovak currency. This will enable real competitive pressures on domestic producers and establishing equilibrium relationships between prices. The final aim is, in accordance with Article VIII, Treaty with the IMF, a complete convertibility of the Czecho-Slovak currency.

The concept of the programme of internal convertibility is based on the following:

- obligatory sale of hard currency for external payments to bank and the possibility of a free purchase of hard currency from banks in Czecho-Slovak crowns, to be used abroad;

- application of a unified exchange rate created on the basis of demand and supply on the foreign-exchange market;
- eliminating foreign currencies circulating in the Czechoslovak economy;
- regulation of equilibrium in exchange rate relations by macroeconomic interventions from the central government;
- supporting export performance by a suitable taxation and credit stimulation of those production structures, which will be able to secure a sufficient creation of hard currency through a higher export quota;
- intervention of the central bank on the foreign-currency market, enabling a longer-term stabilization of the exchange rate.

The structural policy backing the economic reform will be based on the application of comparative advantages of the Czechoslovak economy, i.e. on the conditions of its efficient involvement in international trade. The following are major trends in the structural policy:

- limitation of heavy industry and promotion of traditional and prospective activities of light industry;
- decreasing the consumption of energy and raw materials in production and reducing its unfavourable impact on ecology;
- strengthening the tertiary sector, mainly in tourism, services, banking, insurance and tourist institutions;
- renewal of economic growth and entrepreneurial activities, mainly in the private sector;
- developing of foreign tourism;

- introducing information systems in the society, including telecommunication infrastructure;
- compensating and repairing the damage made to the environment;
- development of transportation facilities and the like.

The scenario of economic reform cannot be implemented smoothly, i.e. free of any problems and a considerable tension in the social area. Even if there are efforts to minimize the unfavourable heritage of the previous development, characteristics of the labour supply exceeding the number of vacancies, the problems of inefficient overemployment, poor work discipline and low productivity of labour can only be eliminated gradually in the years to come.

V. E P I L O G

On New Year's day the Czechoslovak koruna was effectively devalued by 14,25 per cent to around "(to the dollar following a 50 per cent devaluation in October. The currency was also made internally convertible and most foreign trade restrictions were lifted in line with promises made to the International Monetary Fund.

"Small privatisation" plan designed to convert more than 100 000 shops, service stations and other small businesses to private ownership over this year is due to come into effect.

The government has also drawn up tax measures designed to keep wage and salary growth well below an inflation rate which some economists believe could go as high as 30 per cent this year.

The net result of devaluation, price liberalisation, widespread privatisation, a further sharp drop in Comecon trade, higher oil prices and wage controls will be a further 5 per cent drop in GDP this year. GDP fell by around 3,5 per cent. Unemployment is expected to rise from about 30 000 at present to 400 000 or more by the end of the year.



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On the other hand Czechoslovakia's industrial traditions, geographical proximity to the rich markets of the European Community and commitment to a market system have already attracted the first large strategic investments. The most important is Volkswagen's USD 6,45 billion DM deal with Skoda. The value of the foreign investment in Czechoslovakia amounted together almost 10 billion DM. This way could be one of most important assumptions of the comeback of our country among the developed countries of Europe.